

WILMINGTON EVENING JOURNAL
14 July 1981

Spy chief quits as stock scandal brews

Associated Press

WASHINGTON — Max Hugel, the CIA's spy chief, today resigned hours after the Washington Post said he had illegally supplied two Wall Street stockbrokers with advance inside information about a firm he once headed.

The CIA said in a press release that Hugel had concluded the allegations "have become a burden which he believes is no longer fair to impose on the agency and the men and women who have worked with him."

Hugel, the agency's deputy director for operations, had released a statement Monday night through his lawyer, Judah Best, saying that he had "never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself or the United States."

The CIA said director William J. Casey accepted Hugel's resignation "with deepest regret" and appointed John Stein to replace Hugel.

Hugel's letter of resignation to Casey repeated that the allegations were "unfounded, unproven and untrue."

He also said he felt he "can no longer effectively serve you or the agency."

Hugel worked in President Reagan's election campaign last year as an organizer of ethnic groups. The Post said his appointment by CIA Director William J. Casey as deputy director for agency operations surprised top White House aides.

The newspaper quoted New York

brothers Thomas R. McNell, 49, and Samuel F. McNell, 47, as saying they and Hugel participated in a series of prohibited practices in 1974 to promote the stock of Hugel's electronics company, Brother International Corp.

They said Hugel gave them inside information about the company's potential earnings in advance of disclosure to other investors and improperly funneled \$131,000 to their brokerage firm, McNell Securities.

Hugel told the Post in an interview last Friday that the brothers tried to "blackmail" him when he attempted to sever business dealings with them and collect several hundred thousand dollars he claimed they owed him.

The statement Hugel's attorney issued Monday night said, "I am deeply disappointed that this newspaper has determined to lend its credit and dignity to the accusations of two men such as the McNell brothers."

"The fact of the matter — and this is incontrovertible — is that I have never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself or the United States," it said.

Best acknowledged that Hugel, 56, joined Samuel McNell in 1974 in an investment that later turned out to be unprofitable.

But the lawyer said the CIA's extensive pre-employment background investigation gave Hugel a clean bill of health.

"He was independently wealthy then and now," Best said. "He's not subject to influence or greed. That's

what made him a good appointment, and that's what makes this all absurd."

CIA spokesman Dale Peterson, noting that Hugel had been investigated extensively, said the agency had no comment on the article "until we see it. And then we might not have any."

Meanwhile, The New York Times reported today that an internal investigation had been ordered by Casey, who was chairman of the Securities and Exchange Commission during the Nixon administration until 1974.

CIA Investigating Its Spymaster On Allegations of Stock Fraud

CIA Director William J. Casey has begun an internal investigation into the past business practices of the agency's deputy director for operations after receiving allegations that the deputy, Max C. Hugel, was guilty of securities fraud when he managed an electronics company.

The charges were made by Samuel McNell, a former business associate of Hugel. McNell has contended that Hugel defrauded him as part of a stock transaction involving the Brother International Corp., a defunct electronics company that Hugel headed in the mid-1970s.

Judah Best, a lawyer representing Hugel, yesterday said that his client had violated no laws and denied the allegations.

The investigation is being conducted by Stanley Sporkin, the CIA's general counsel, according to sources familiar with the case.

As head of the agency's directorate of operations, Hugel is responsible for overseeing covert operations and clandestine intelligence-gathering abroad.

When Hugel was appointed to his post in May by Casey, members of the intelligence community criticized the selection, contending that Hugel had no experience in sensitive intelligence matters.

Last year, Hugel served as a top aide in Ronald Reagan's primary election campaign in New Hampshire and later worked in the national campaign organization handling ethnic, nationality and citizens groups.



In January, he followed Casey, who was Reagan's campaign manager, to the CIA, serving as a special assistant to the director until his appointment to run operations in May.

The charges against Hugel apparently stem from his work as founder and president of Brother International, a Japan-based export-import concern that became one of the world's largest manufacturers and distributors of sewing machines and typewriters.

The allegations against Hugel basically involve two categories of Securities and Exchange Commission laws: insider trading and market manipulation by fraud. For most crimes in those categories, when some other form of criminal conspiracy is not involved, the statute of limitations tolls within two to five years after the occurrence of the alleged illegal act.

Hugel, who studied Japanese in the Army in World War II, established the company after leaving the military in 1947. The company was later merged into the Centronics Data Computer Corp. of Hudson, N.H.

Before he joined the Reagan campaign, Hugel was executive vice president and a director of Centronics.

Sources familiar with the case said that in the 1970s McNell and Hugel were limited partners in a small, New York brokerage firm.

McNell apparently has charged that Hugel illegally manipulated the sale of Brothers International stock through the brokerage agency.

Hugel, in turn, has said, according to Best, that McNell once forged Hugel's signature when endorsing an insurance check that was made out to both McNell and Hugel.

According to Best, this dispute arose at a time when Hugel was attempting to collect \$380,000 he had lent to McNell and the brokerage agency, called Arlington Associates.

The insurance money had been paid to cover the loss by fire of a property in Maine owned by McNell and pledged to Hugel as collateral on the loan.

Intelligence officials said the allegations were first brought to Casey's attention late last week. He directed Sporkin, former head of the enforcement at the Securities and Exchange Commission, to investigate the charges.

Best said yesterday that the review is in its initial phases as agency officials and Hugel checked through company records and other documents.

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THE WASHINGTON POST
14 July 1981

Cusey Appointed A Man He Trusted

By Lou Cannon
Washington Post Staff Writer

When CIA Director William J. Casey appointed Max Hugel as the nation's chief spy-master, the action so astonished top-ranked White House officials that Casey wrote a letter to President Reagan explaining his unusual selection.

"It was a coup by Casey," a well-placed White House aide said yesterday.

If there was anyone in the White House who wasn't surprised by that action, which was made public in mid-May, he couldn't be found yesterday. One well-placed official said that the president's top triumvirate of aides — chief of staff James A. Baker III, deputy chief of staff Michael K. Deaver and counselor Edwin Meese III — were all caught off guard by Casey's decision.

There was an immediate outcry from intelligence officials as well as those who worked with Hugel in the 1980 Reagan campaign. Hugel's job as deputy CIA director for operations is one of the most sensitive and important in the government.

The response prompted Casey to defend his selection. In his letter to Reagan, the CIA director argued that Hugel possessed valuable managerial skills and had proven himself in the Reagan campaign. Casey also claimed that Hugel's campaign work organizing ethnic groups was similar to organizing covert operations.

Casey said in his letter that he had known and trusted Hugel for 20 years and wanted someone from outside the intelligence community to prevent in-fighting for the job.

"Does the White House know about this?" was the first response of Stuart K. Spencer, Reagan's chief 1980 campaign strategist, to Hugel's appointment.

Despite such warning signals, which included strongly voiced private objections from prominent members of the intelligence community, the White House did not overrule Casey. High-placed officials deplored the choice but said it was Casey's to make.

Yesterday, Casey declined to comment on his reasons for picking Hugel, who went into the CIA with him Jan. 21 as a special assistant and then was promoted to deputy director of administration, before being chosen to head the operations directorate.

But others in the administration tried to explain Casey's reasoning.

"Max had done a lot of overseas work," Meese told The Washington Post last week. "That's been a large part of his professional career as an overseas marketeer. Also, Bill admired his ability to manage things in the campaign and felt he would be the right person to put in that job."

"He restructured that particular segment of the agency by having, in essence, a lay administrator, a non-career administrator, and then had two career specialists in charge of the two halves, which they had not had before . . . He was interested in having, as part of his total management plan over there, someone he could rely on 100 percent."

Such explanations have failed to satisfy CIA professionals.

A former deputy director of operations for the agency said yesterday that Hugel "substitutes profanity for thought" in a job that is one of the most important in the CIA.

"This person is in charge of assignments and judgments in the field of covert intelligence, picking station chiefs and deputy station chiefs in foreign countries, making the final decisions on covert operations and on personnel," this former official said. "This is the man who decides on whether or not a covert action is practically feasible. There is no substitute for experience in that area."

Another high-ranking career CIA expert questioned the wisdom of appointing anyone with a stocks-and-bonds background to be deputy director of operations (DDO).

"There is no way a DDO can be in stocks or commodities because sure as hell you're going to be accused of insider information, given the character of people you deal with and the information you receive," this

an apparently inappropriate background for the DDO job, it is necessary to understand the relation forged between Reagan and Casey in the presidential campaign.

The 68-year-old Casey, chairman of the Securities Exchange Commission during the Nixon administration, joined Reagan in February, 1980, when the Reagan campaign was spending money so fast the candidate feared he would be bankrupt long before the Republican convention. Casey introduced strict spending controls, and Reagan was so grateful that Casey became one of his most trusted aides, enjoying a position usually reserved for longtime Reagan insiders.

When Reagan won the New Hampshire primary two weeks later, he fired campaign manager John Sears and installed a collective leadership — the forerunner of the present collective leadership in the White House — consisting of Casey and Meese. Later, Spencer and Deaver became the chief operatives on the Reagan campaign plans, in effect sharing the campaign leadership.

Hugel, 56, already was part of the campaign when Casey arrived, but his role was a small one. He was Nashua town chairman in the New Hampshire primary, as the result of a recommendation of William Loeb, the influential publisher of the Manchester Union-Leader.

In a front-page editorial that inspired snickers among some Reagan campaign operatives, Loeb credited Hugel with a vital role in the election, calling him "the man with the answers."

Actually, there is support for Loeb's view by some campaign veterans. One knowledgeable member of the campaign team said that Hugel did "a competent job" in organizing ethnic voters in the national campaign.

Another aide who spent a lot of time on the campaign called Hugel "a political idiot" who tried to overschedule Reagan into minor events and who needlessly irritated political

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THE WASHINGTON POST
14 July 1981

CIA Spymaster Is Accused of Improper Stock Practices Hugel Denies Leaking Inside Business

By Bob Woodward and Patrick E. Tyler
Washington Post Staff Writers

Max Hugel, who holds one of the most sensitive jobs in the Reagan administration as chief of the CIA's clandestine service, engaged in a pattern of improper or illegal stock market practices in the mid-1970s that was intended to boost the stock of the New York wholesale firm he headed, according to two former business associates who secretly tape-recorded Hugel's business conversations.

The allegations against Hugel, 56, are made by two former Wall Street brokers, Thomas R. McNell, 49, and his brother Samuel F. McNell, 47, who charge that they participated with Hugel in a series of prohibited practices which deceived other investors. Several securities experts, consulted about the case, agree that Hugel's participation in these activities, if true, would be at least improper and perhaps illegal.

The McNells' tapes and documents corroborate these accusations: Hugel provided them with "insider" information on the company he headed in advance of disclosure to other investors and the general public; Hugel improperly funneled funds to McNell Securities, the principal firm trading in his company's stock, Brother International Corp., through loans to Samuel McNell as a middleman.

The McNells, who admit their own culpability in these activities, further allege that Hugel, relying on a business associate, orchestrated the phased purchase of 15,000 shares of his company's stock to create the appearance of increased market interest in it.

As the Central Intelligence Agency's deputy director for operations, Hugel today has access to the U.S. government's most

important secrets and directs the agency's worldwide network of covert intelligence agents. He emphatically denies any wrongdoing in his business relationships with the McNells and accuses them of threatening him with "blackmail" when he tried belatedly to sever the business connections and collect several hundred thousand dollars in loans.

Hugel, however, did not report any blackmail threats to the CIA's Office of Security which reviewed his past for the necessary security clearances. Hugel describes the McNells as "vindictive" people who, among other things, tried to swindle him. He dismissed all of their accusations as resentments left over from their ill-fated business connections in 1974 that ended in bankruptcy for Thomas McNell.

Beyond the accusations of improper behavior, the McNell tapes portray Max

Hugel as a combative and volatile person, given to profanities and angry expressions. At one point, when the business relationship was scurring, Hugel expressed his rage at the McNells' Wall Street lawyer. "I'll kill the bastard," he said. On another tape, Hugel suggests that Thomas McNell might be found "hanging by the balls" if the outstanding loans were not repaid.

These revelations of stock market irregularities confront the leadership at the CIA with special irony. Hugel was brought from the Reagan campaign organization into the sensitive job of spymaster by CIA Director William J. Casey over the objections of some senior officials to his lack of experience. Casey is himself a former chairman of the Securities and Exchange Commission which polices Wall Street and he chose as CIA general counsel Stanley Sporkin who for many years was the chief enforcement officer at SEC and well-

accompanied by his two lawyers, and Sporkin, representing the CIA, met with reporters and editors at The Washington Post to review the accusations and records. Hugel said he canceled a weekend trip on an important overseas "operation" in order to confront the charges.

"There isn't any question I won't answer," Hugel said. "This is a very serious matter, my friends. My personal reputation is at stake. I intend to see this thing through to its very end."

Hugel and his attorneys requested a second meeting with Post reporters yesterday at which they presented some documents and repeated Hugel's denials. Hugel said some of his emphatic denials of last Friday may have appeared misleading, particularly in light of the tape recordings, but he had no intention of deceiving. Again he said he is innocent of any intent to conspire with the McNells or anyone else.

"I never profited one penny from the purchase or sale of Brother stock," Hugel said. Of his 20 years with Brother International, he said, "I'm proud of what I did and I'm proud of it now."

In Friday's response to point-by-point questions, Hugel denied ever sharing any "insider" information with the McNell firm while it was making a market in his company's stock as well as the other allegations. When several of the tape recordings were played for him and his lawyers, Hugel said he recognized his own voice but he didn't know what to say. His lawyers advised him not to answer further questions until they could search his own records dealing with

14 July 1981

CIA Operati Director Quits Stock Dealing Charges

Hugel Calls Allegations 'Unfounded'

Former Associates Say He Violated SEC Laws

By Jeremiah O'Leary
and Allan Dodds Frank
Washington Star Staff Writers

Max Hugel resigned today as the CIA's deputy director for operations in the wake of reports that he engaged in questionable stockmarket practices before he became chief of the agency's clandestine service.

CIA director William Casey immediately named John Stein, a career CIA official who had been one of Hugel's deputies, to replace Hugel.

Stein met this morning with members of the Senate Select Committee on Intelligence to inform them that he was replacing Hugel.

The CIA said in a press release that although Hugel contends the allegations against him are "unfounded and untrue," he had concluded the charges "have become a burden which he believes is no longer fair to impose on the agency and the men and women who have worked with him."

"Mr. Hugel wishes to emphasize that the allegations against him concern his private life and have no connection whatsoever to his association with CIA or to its activities," the statement said.

Hugel's departure came after White House chief of staff James A. Baker III telephoned Casey to tell him that the agency's controversial chief of operations had to go, White House sources said.

In that conversation, it was agreed that Hugel would be allowed to resign.

Casey decided in January to name Hugel, a 56-year-old New Hampshire businessman who had worked in the Reagan campaign, to one of the most sensitive positions in government.

Hugel first served as a special assistant to Casey before being named as deputy director for administration on Feb. 11 and as deputy director for operations on May 11.

The choice of Hugel to head the operations division, which oversees clandestine activities, was made by Casey without consulting top White House officials and caused an uproar.

CONTINUED

C.I.A. Chief Orders Investigation On Charge of Fraud Against Aide

Special to The New York Times

WASHINGTON, July 13 — William J. Casey, the Director of Central Intelligence, has begun an internal investigation into the past business practices of the agency's deputy director for operations after receiving allegations that the deputy, Max C. Hugel, was guilty of securities fraud when he managed an electronics company.

The charges were made by a former business associate of Mr. Hugel. He has contended that Mr. Hugel defrauded him as part of a stock transaction involving the Brother International Corporation, a defunct electronics company that Mr. Hugel headed in the mid-1970's.

Judah Best, a lawyer representing Mr. Hugel, said today that his client had violated no laws and denied the allegations.

The investigation is being conducted by Stanley Sporkin, the C.I.A.'s general counsel, according to sources familiar with the case.

As head of the agency's directorate of operations, Mr. Hugel is responsible for overseeing covert operations and clandestine intelligence-gathering abroad.

When Mr. Hugel was appointed to his post in May by Mr. Casey, members of the intelligence community criticized the selection, contending that Mr. Hugel had no experience in sensitive intelligence matters.

Last year, Mr. Hugel served as a top aide in Ronald Reagan's primary election campaign in New Hampshire and later worked in the national campaign organization handling ethnic, nationality and citizens groups.

In January, he followed Mr. Casey, who was Mr. Reagan's campaign manager, to the C.I.A., serving as a special assistant to the director until his appointment to run operations in May.

The charges against Mr. Hugel apparently stem from his work as founder and president of Brother International, a Japan-based export-import concern

that became one of the world's largest manufacturers of and distributors of sewing machines and typewriters.

Mr. Hugel, who studied Japanese in the Army in World War II, established the company after leaving the military in 1947. The company was later merged into the Centronics Data Computer Corporation, situated in Hudson, N.H.

Before he joined the Reagan campaign, Mr. Hugel was executive vice president and a director of Centronics.

Details of the allegations against Mr. Hugel were not available, but sources familiar with the case said that, in the 1970's, the man who made the charges and Mr. Hugel were limited partners in a small, New York brokerage firm.

The business associate has apparently charged that Mr. Hugel illegally manipulated the sale of Brothers International stock through the brokerage agency.

Mr. Hugel, in turn, has said, according to Mr. Best, that the business associate once forged Mr. Hugel's signature when endorsing an insurance check that was made out to both the business associate and Mr. Hugel.

According to Mr. Best, this dispute arose at a time when Mr. Hugel was attempting to collect \$380,000 he had lent to his business associate and to the brokerage agency, called Arlington Associates.

The insurance money in question had been paid to cover the loss by fire of a property in Maine owned by the business associate and pledged to Mr. Hugel as collateral on the loan.

Intelligence officials said the allegations were first brought to Mr. Casey's attention late last week. He directed Mr. Sporkin, former head of the enforcement at the Securities and Exchange Commission, to investigate the charges.

Mr. Best said today that the review was still in its initial phases as agency officials and Mr. Hugel checked through company records and other documents.

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THE CHRISTIAN SCIENCE MONITOR
14 July 1981

Charting the political reefs ahead for Reagan

After money issues settled, can White House still keep its grip on the legislative reins

By Richard J. Cattani

Staff correspondent of The Christian Science Monitor

Washington
The early torrid days of summer have begun to test the patience and resourcefulness of the Reagan administration, on economic, social, and foreign policy issues.

Domestically, the Republican-controlled Senate has rebuffed the White House by insisting on playing out its negotiating role with House budget conferees, instead of simply accepting the House version as urged by Reagan budget whiz David A. Stockman.

The Democrats have begun to find their voice as the loyal opposition. The Democratic leaders are pushing forward young, attractive spokesmen like Sen. Bill Bradley of New Jersey and Sen. Gary Hart of Colorado on issues ranging from tax to environmental policy. In the House, Ways and Means chairman Don Rostenkowski has begun a careful tax-writing campaign to win over oil-state Democrats with tax write-offs for producers, and Northern moderate Republicans with tax breaks for small businesses.

In foreign policy, the White House has had to move to end the rivalry between backers of Secretary of State Alexander M. Haig Jr. and the White House's internal national security chief Richard V. Allen.

To do so, the President has drawn on a lesson from the early, troubled days of his election campaign. Then he fired campaign director John Sears and replaced him with a team of a half dozen advisers. Now he has reduced the daily personal briefing role of Mr. Allen, and has begun to meet three mornings a week with his entire top echelon for national security: Vice-President George Bush, Secretary of Defense Caspar W. Weinberger, and Central Intelligence Agency Director William J. Casey, plus Mr. Allen and top White House aides Edwin Meese III, James Baker III, and Michael Deaver.

On social issues, the administration was disappointed when New Right activists quickly swung against the President over the nomination of Judge Sandra Day O'Connor to the Supreme Court. In part, the White House sees an advantage in this attack, since it could make the administration appear more moderate.

But Reagan political pros, looking ahead to next year's congressional elections, see trouble brewing.

The Democrats' resourcefulness in putting together an alternative tax bill could mean the second major White House defeat — the first having come with rejection of the Reagan social security reforms. Reaganites worry that the earlier budget successes could lead the press to drastically overplay a tax bill loss.

Beyond this, however, even if the White House wins again on taxes, some of the President's congressional quarterbacks complain that his strategy is built too much on economic policy alone.

"I'm concerned about what the White House does after the economic issues are settled," one Reagan political aide told the Monitor. "You need more than a one-issue White House. On the social issues, there has to be a priority list for September. The danger is Jesse Helms [the conservative North Carolina Republican senator] might be stepping into the void."

Max Friedersdorf, the President's liaison with Congress, has been publicly preparing the way for some White House defeats on the Hill. If not on the tax battle, then on farm, clean-air, communications, and defense issues, the President will have to forge coalitions anew.

On the social issues like abortion, Mr. Friedersdorf says the President is likely to let members vote their own way. In other words, the President would declare his own view but not lobby. The strategy worries some Republican Party professionals who see the prospect of a conservative spectacle ruining their attempts to woo the loyalty of moderate voters.

On the economy, the White House has not yet been able to persuade Wall Street's money men that Mr. Reagan's program will work the wonders against inflation he has forecast. Treasury Secretary Donald Regan wonders publicly why a half year of lower-than-double-digit inflation has not been enough to convince the investment community, whose decisions influence interest rates, that inflation can be contained.

The prime interest rate rose above 20 percent again last week. The high US rates, attracting funds from abroad, have become a major agenda item at next week's economic summit at Ottawa.

The high interest rates are also pushing up spending estimates for the next fiscal year. Defense spending alone for fiscal 1982 could run as much as \$10 billion over previous estimates, according to recent reports. To balance the budget by 1984, as promised during the campaign, the administration will have to find substantially more than the \$44 billion it has already committed itself to in further spending cuts.

The question for the President is how long Congress will acquiesce to the White House leadership. The Senate has already insisted on playing out its own budget hand through the final steps of passage. Reagan is being challenged again by the Democrats on the tax bill, who have apparently learned from their humiliating rout on the budget.

"No victory is ever final in the Congress," says Mr. Friedersdorf, anticipating a summer of tough Capitol Hill maneuvering for the President.

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THE CHRISTIAN SCIENCE MONITOR
14 July 1981

White House advisers' ups, downs

By Godfrey Sperling Jr.

Staff correspondent of The Christian Science Monitor

Washington

Some procedural changes in the White House are stirring up considerable speculation in Washington.

Richard V. Allen, national security affairs adviser, will no longer orally brief President Reagan each morning.

Instead, he will send along a daily briefing paper to Mr. Reagan and stand ready to answer questions should the President ask for more information on subjects covered in the memo.

A White House spokesman told the Monitor that this was in no way a demotion for Mr. Allen, that it was simply a way of better utilizing the President's time.

However, when another White House aide was asked whether this meant that Allen was being downgraded, he said, "That's a good question. In all fairness, accessibility to the President is very important. If Allen now sees the President less, it won't be good for him."

Another White House source said the daily briefings had become too long and, in some instances, were coming close to being decisionmaking sessions — "which is not their function."

The daily briefings were attended by Vice-President George Bush, either Secretary of State Alexander M. Haig Jr. or Deputy Secretary of State William P. Clark, Edwin Meese III, James Baker III, Michael Deaver, and Adm. Daniel Murphy — along with Allen.

Now the President will be stepping up his meetings with his full National Security Council: Mr. Bush, Mr. Haig, Secretary of Defense Caspar W. Weinberger, CIA Director William J. Casey, together with Messrs. Allen, Meese, Baker, and Deaver.

The President will schedule three morning sessions a week with this group, although aides say that, unless there is an emergency, the meetings will likely be held to two each week.

Some observers see in this move a desire to make sure that two of the President's closest associates, Mr. Weinberger and Mr. Casey, always be involved in the foreign policy decisionmaking process.

In addition, the President has moved pre-Ottawa summit preparations from the vice-president to presidential aide Deaver.

This has stirred some speculation about whether Mr. Bush, who headed a task force preparing for Ottawa, had failed in this important project, making a last-minute change necessary.

However, White House spokesman Larry Speakes said July 13 that the changeover had been according to plan. "The vice-president was only to be the coordinator, setting up preliminary preparations. Then the final fine-tuning of the plans were to be done by Mike Deaver."

THE WHITE HOUSE
Office of the Press Secretary

PRESS BRIEFING
BY
DAVID GERGEN

The Briefing Room

July 14, 1981

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THE WHITE HOUSE

Office of the Press Secretary

PRESS BRIEFING

BY

DAVID GERGEN

July 14, 1981

The Briefing Room

2:27 P.M. EDT

MR. GERGEN: Good afternoon. I wanted to take note of the fact today, I believe, we have a number of French guests here today from the Franco-American Institute. This is Happy Bastille Day and I gather the President has sent an appropriate message to you.

We do have a few personnel announcements, the schedule, and a few other items and then I'll try to give you a brief readout from the visit to the Hill today at lunch.

On personnel announcements, the President is announcing his intention to nominate Dominick DiCarlo to be Assistant Secretary of State for International Narcotics Matters. I think you're receiving these bios now. Thomas Donnelly, Jr., to be an Assistant Secretary of Health and Human Services for Legislation; William Jennings Dyess -- very well known to many of you, to be Ambassador to the Kingdom of the Netherlands; and George Allen to be a Member and Chairman of the President's Council on Physical Fitness and Sports.

Q Boo! Very much boo!

MR. GERGEN: If we can't have baseball, let's have a little football.

Q Is that a paying job?

MR. GERGEN: I don't think so.

Q He gets all the draft choices he can use.

MR. GERGEN: That's right. We get the next three draft choices.

The President's departing this afternoon at 2:50 for the Irish Embassy for a ceremony honoring Dr. Loyal Davis with a travel pool coverage. As you know, Dr. Davis was made an Honorary Fellow of the Royal College of Surgeons in Ireland. At 3:50 p.m., an hour later, he returns to the White House. At 7:30 p.m., he will attend a reception for the Irish Surgeons at the White House in the Blue Room. At 8:25, the President's departing for Decatur House for a dinner in honor of Dr. Davis and there is travel pool coverage. You're in luck. The pool can wear suitable evening attire as opposed to black tie for coverage of this event.

Q Oh!

MR. GERGEN: Now, that's a real change isn't it? We're

MORE

#129-7/14

Q Who in the Department of Energy has been mainly the author?

MR. GERGEN: I'm sorry, I don't have the answer to that. I think it came over from the Secretary or from his secretariat. It is a comprehensive report. I think the report that I saw was more than 50 pages in length, so I'm sure there have been many hands in it.

Q Have you all made any changes in it over here?

MR. GERGEN: I think there have been some suggestions made, but I can't tell you whether they go to policy or whether they go to wording.

Q Has the White House made any attempt to find out whether the McNell brothers tried to contact Pendleton James regarding Max Hugel? Did you look at the telephone log?

MR. GERGEN: I'm told that Pen has tried to take a look back through his logs of the transition period and has not been able to ascertain whether there was a call or not a call from the available materials that he has. He does not personally remember such a call.

Q To go back to the economy for a minute -- the IMF has now completed its confidential report on the U.S. economy and we're getting information from people inside the administration that the Governor and the Deputy Governor from the United States to the IMF, which is Regan and Volcker, are indicating that they are going to give the IMF even more authority in terms of actually setting policy for the United States than the Carter administration gave the IMF, which you may be aware in '77 a law was passed which actually does allow the IMF to make certain actual dictates to the U.S. economy.

The Carter people--obviously they pushed that through under Blumenthal -- were very cooperative with that. My question is --

MR. GERGEN: To cut it short, I'm not sure. I really think that --

Q Okay, you just need to be able to take the question. My question is simply does the President also agree that the IMF should have authority to state what U.S. policy should be and, in a certain sense, dictate policy to the administration?

MR. GERGEN: I'm sure the question has not come to the President in that form.

Q Could you take the question for me?

MR. GERGEN: I'd like to direct you to the Secretary of Treasury.

Q I know where the Secretary of Treasury stands. I want to know where the President stands, because he certainly campaigned on --

MR. GERGEN: I just told you I have not come to the question -- the President has not been presented with such an issue that the IMF is going to dictate U.S. economic policy. That's clearly not the case.

Q David, in light of the problem -- back to the tax thing -- in light of the problem that you've got in the House, is the White House still standing firm on its position that it won't compromise? Or, if it still won't compromise, then what makes you think you will turn the situation around?

MR. GERGEN: I think the President has made clear -- Larry has already spoken to this issue from this podium and I think I have as well -- that the President feels that there's been a good deal of give-and-take on the bill already, that in the process of forging the Conable-Hance bill, there was a lot of give-and-take. He has accommodated to a large extent. There have been -- he feels he has compromised far enough and he does not want to compromise on the fundamental principles underlying his tax bill -- namely, a three year across-the-board cut.

Q David, what is the President's view of Bill Casey's judgment in the Hugel manner?

MR. GERGEN: I don't have an answer to that, Lou, in that precise format. The President was saddened by the events that have led to Mr. Hugel's resignation. As you know, Mr. Hugel was not nominated by the President -- a Presidential position. As I understand it, there are only two people in the agency who are, in fact, nominated by the President -- that's Director and Deputy Director. So, the issue never came to him originally as to do you want or not want this individual in this particular position.

Q Understanding that, what does he think of Casey's judgment in hiring Hugel for that job?

MR. GERGEN: I do not have, as I say, a response on that. I talked to him about it this morning. We didn't get into that particular aspect of it. As I say, I think he also feels, and there's a feeling that's shared here in the White House, that Mr. Hugel handled his assignments in the campaign very capably.

Q What were the circumstances surrounding his resignation? Did he resign voluntarily, or did someone from the White House call up and ask that he be asked to resign?

MR. GERGEN: No, he resigned on his own. That matter was largely handled -- the White House did have some contact with this story as it developed, but he resigned on his own initiative and in consultation with Mr. Casey. I think that the exchange of letters which have been published make it clear why he felt it was important to resign.

Q When Baker called up Casey, did he say, "Get that fellow's resignation?"

MR. GERGEN: No.

Q Are you sure the CIA didn't suggest or Mr. Casey didn't suggest that Mr. Hugel resign?

MR. GERGEN: I haven't talked to Mr. Casey personally about the matter, but I understand that Mr. Hugel resigned on his own initiative.

Q Certainly his segment in the Post didn't indicate any willingness to resign or any intention of resigning, the way I read it.

MR. GERGEN: I think in the statement in the Post he was responding to the allegations more than to the question of whether he felt he ought to stay or not stay in his particular job, but I think his statement today repeated the fact that he felt the allegations were untrue, unfounded and so forth. And he also made it clear that he was resigning because he didn't want to place continuing burden upon the agency, upon his family, upon himself and the administration.

Q Does the President feel that this was an unfortunate appointment?

MR. GERGEN: The appointment?

Q Yes.

MR. GERGEN: No, I think that in general the President has great faith in the people he personally appoints and he trusts their judgment and when they in turn hire people within their own agencies -- that's the way the system has long worked. He does not try to pass upon the merits either in advance or afterwards of the particular people who have been appointed those jobs.

Q Did Mr. Casey

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send a letter, though, at one time -- I think according to the Post story -- to the President that because some of the White House aides were rather upset about this appointment and sent a letter to the President to defend that appointment?

MR. GERGEN: It's my understanding that there was a letter from Mr. Casey to the President. I do not know whether it was sent in response to that. I have not seen the letter and I don't know whether it was in response to the way in which the appointment came about or not. I can't speak to that.

Q Will you be making it available to us?

MR. GERGEN: I am sure that you in your own imaginative way will find it long before I do.

Q Is there any concern that the Agency was compromised at all?

MR. GERGEN: No.

Q None?

MR. GERGEN: No.

Q Why is that?

MR. GERGEN: Because the events that occurred here all happened about seven years ago. They do not reflect upon the Agency or upon the administration. To the contrary, I think that the matter has been handled quickly and I think it's fair to say that Mr. Hugel has been very sensitive, I think, about how these allegations might reflect upon the administration as well as upon himself.

Q Will there be any investigation into possible criminality or possible criminal wrong-doing?

MR. GERGEN: I really believe that that is -- as far as the White House is concerned, the matter is closed. Mr. Hugel has resigned.

Q Was there an FBI security check on him?

MR. GERGEN: There was not an FBI security in this instance. It's my understanding that there was a background check on him conducted by the CIA, which was extensive. (Laughter.)

Q Seriously, isn't there some concern if an extensive CIA check didn't turn up the allegations of these matters, that there might be some problem in the way CIA checks these things?

MR. GERGEN: That is not a concern which is at the top of our list here. I think that the way they conduct their background investigations I really think is a matter better directed to them.

Q There's no press office there, as you may well be aware. (Laughter.)

MR. GERGEN: And I'm the substitute, is that right?

Q They don't return your calls, these new press people there.

Q One of the allegations was that he was providing insider information. Perhaps he might still have been providing insider information since he's been on the job here. Is there no investigation to look and see if maybe this was continuing, if indeed it had gone on in the past?

MR. GERGEN: I am not aware. I think that really is -- from the White House point of view the matter is closed. If the CIA

wishes to have a continual look at its own operations, that's a matter that I think is best left to Mr. Casey where this whole matter has resided very largely here for the last several days.

I think that Bill has been active in dealing with this and I think it's been brought to a very rapid conclusion.

Q So you say the White House case is closed. Isn't the White House interested in having the CIA conduct better investigative procedures in the future and get better men? How can you be closed?

MR. GERGEN: The matter is closed with regard to Mr. Hugel as far as we are concerned. He was not someone nominated by the President and he has resigned. Now, as far as how the Agency conducts its business, that is something that might be -- I can't say whether in fact there'll be further discussions between the White House and the Agency, but with regard to Mr. Hugel and his personal activities, that's what I'm saying is closed with regard to the White House.

Q Wouldn't the White House, as a result of this, ask the CIA to look at its procedures and improve them and have some check on people who check the CIA?

MR. GERGEN: I think it's important to keep these matters in perspective. I think it is my understanding that in the investigation that they conducted, they talked to a number of people in a number of parts of the country. It was very extensive. This is a matter that was some seven years old and I gather it was brought forward by people that you don't -- I mean I think in any investigation it is literally impossible to talk to every single individual who has ever known the person who is in question.

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Of course there are occasions when people come through the system and not everything comes out, but when I come back to this fact, let's remember these are simply allegations. There has been no court test of this evidence. There's been no hard trial of this man. These are simply allegations which are contained in a newspaper story and I think that's important to keep in context.

Q Sir, usually the first thing they do is go to people who were former business associates.

MR. GERGEN: I can't speak to whether they spoke to these individuals.

Q That's routine usually in making these investigations.

MR. GERGEN: I can't speak to whether they've spoken to these individuals.

Q Has the President spoken to Mr. Casey?

MR. GERGEN: Not to my knowledge. I can recite the events which led up to this. In the scenario that -- I've been trying to pursue this this morning to figure out who talked to whom to see -- and to my knowledge Mr. Casey has not talked to the President about it. There were rumors that apparently circulated about this story last week. I have no idea. They may have been here in the Washington community longer than that. I'm just not sure about that. But rumors reached the White House on this matter the middle of last week and Fred Fielding was, I think, -- first got word of this on Wednesday of last week. He reported it to Jim Baker on Thursday of last week. Jim, in turn, talked to Bill Casey and Bill came over here --

Q When?

MR. GERGEN: Thursday of last week. And there was a meeting with Jim, Bill and Fred Fielding. Fred sat down with Max Hugel on Thursday afternoon, or Thursday during the day, I can't say whether it was morning or afternoon.

Q Who?

MR. GERGEN: Fred Fielding -- and told him of the rumors that were circulating. We had no hard evidence, in fact, I would still say we don't have what might be considered hard evidence. In any event, the matter was then transferred -- Bill Casey took the matter back to the agency, the CIA, and Stanley Sporkin, who is the General Counsel at the agency, worked on the matter in the succeeding days.

Q This was Friday?

MR. GERGEN: I assume Sporkin probably learned of it -- I don't know whether he learned of it Thursday or Friday. I can't speak to that. It was late in the week, obviously.

Remember this was still only at the rumor stage at this point. No one knew what were the full facts or ramifications or anything else. Jim Baker told the President yesterday that -- he alerted them to the story that seemed to be coming very rapidly.

Q When was that? What time?

MR. GERGEN: At close of the business yesterday.

Q That was when the President first learned of the --

MR. GERGEN: To my knowledge, that's when the President learned of it, yes. He learned of the story coming.

Q That's a pretty long time from Wednesday to yesterday.

MR. GERGEN: And then this morning in a meeting with Meese, Baker, Deaver, the President was informed that Mr. Hugel was resigning.

Q When did the senior staff find out, before they told the President?

MR. GERGEN: When did the senior staff find out what?

Q That he was resigning?

MR. GERGEN: Clearly they told him in a meeting. I think they found out this morning. I'm not sure whether they found out last night or this morning. It obviously happened within the last several hours.

Q Did the President ask him to resign?

MR. GERGEN: No, the President did not ask him to resign.

Q The administration handled this very quickly. It's sort of a laudatory thing for the administration.

MR. GERGEN: It think it's laudatory with regard to Mr. Hugel. I'm not trying to take credit for the administration.

Q It was his idea, not the administration's?

MR. GERGEN: It was not the White House's idea. The White House did not suggest it.

Q Well, wouldn't he have been fired if he hadn't resigned?

MR. GERGEN: That question did not arise in that context. That's a hypothetical.

Q Would he have resigned if the Post hadn't published this today?

MR. GERGEN: I think that's a question better directed to Mr. Hugel. I don't know his mind on this particular matter.

Q Why didn't he resign on Monday, for example, or on Sunday or last Friday when all this was pretty well-known, David?

MR. GERGEN: I think you know and I think it's obvious from the stories that have been going about that he denies very firmly the allegations that were involved here and I have no doubt that the one interest he had was in trying to ensure that the story

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did not receive very large play because he didn't believe it was true. So, I wouldn't read anything into that.

Q Except that he did say he was being blackmailed and it's my understanding that he had not said anything at all about this to the people who had checked him out.

MR. GERGEN: That's a little detail I really think is best left to Mr. Hugel.

Q At the beginning of this period of briefing you said this was being handled by the CIA, it was Casey's business and the subject wasn't well-known here and all that.

MR. GERGEN: That's right. I didn't say -- well, he did work in the campaign, as I think you recall.

Q He worked in the campaign. But now you're telling us that Fielding, Meese --

MR. GERGEN: I simply -- wait a minute --

Q The question is, did any of the senior staff such as Meese, Baker, or Deaver suggest to Mr. Hugel that he resign?

MR. GERGEN: It's my understanding that that matter was worked out between Mr. Casey and Mr. Hugel. The White House did not ask him to resign and did not ask Mr. Casey to have him resign.

Q Did Mr. Casey ask him to resign?

MR. GERGEN: It is our understanding here that he resigned on his own initiative.

Q Where does that understanding come from? Does it come from Bill Casey?

MR. GERGEN: That's correct.

Q You said that Sporkin had investigated this and started working on it. What did his investigation turn up on the allegations?

MR. GERGEN: I think you ought to direct that question to Mr. Sporkin.

Q Dave, is there any concern in the White House that this man might now be a security risk having -- facing legal problems and having a lot of secrets and perhaps needing money and so on?

MR. GERGEN: Let's be clear about -- what legal problems does he face?

Q Potential legal problems.

MR. GERGEN: Potential legal problems. No, I don't think that's a large concern here. I think there's a sadness -- the President -- there's a sadness here that this happened to this

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man. This is a matter that's seven years old. It is a matter that's come up only in the newspapers. There's been nothing of a legal nature presented. There's not been a law suit. There's not been any kind of criminal activity. There's been nothing other than a story, and a very long story, about a matter that happened seven years ago, in a newspaper. And that's where the matter stands.

Q What was the precise reason he gave for his resignation?

MR. GERGEN: I can only read you the letter. If you've got the letter --

Q No, I'm sorry. If you don't mind David --

MR. GERGEN: Sure, I have no problem with that. This is a Dear Bill letter, the 14th of July. I'll read you the second sentence. The letter reads, "As you know, since I was appointed Deputy Director for Operations, I have been the subject of repeated -- " I'll go rather rapidly because I think this is available for the press, " -- the subject of repeated unfavorable articles of the press, the most recent one being this morning. These allegations, although unfounded, unproven and untrue, have become a burden which I no longer believe is fair to impose on the administration, the Agency, my family, and the splendid men and women who work with me. Accordingly, with deepest regret and sorrow, I hereby tender my resignation effective as of close of business today. I want you to know how appreciative I am for the opportunity you have provided me to serve my country. However, under present circumstances, I feel I can no longer effectively serve you or the Agency. Although I am resigning, I want you to know that I am available for any future assignment in which you believe I can be of help. Sincerely, Max Hugel."

Q Is that a resignation like Allen's where you resign when you're a burn victim and come back?

MR. GERGEN: I think he's resigned, period.

Q He says he'd like to serve in some other way.

MR. GERGEN: I think he's offered his services. I think the man continues to believe that he is not resigning -- you can read the letter saying in his own words why he's resigning. I don't want to interpret --

Q Even though the President didn't nominate him and the President is saddened by what's happened --

MR. GERGEN: Yes.

Q -- is the administration embarrassed by his record and --

MR. GERGEN: No. I want to come back to this. These events relate to something that happened in 1974. It happened seven years ago. They did not happen while he was on the job in

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this administration. They had nothing to do with his work in this administration. Within hours after a newspaper story appearing, with no court charges or anything else, the man has taken it upon himself to resign. He has left the administration. I think he has conducted himself with sensitivity in this matter and with a good deal of concern about how it might reflect on the administration. The administration is certainly not embarrassed by that kind of thing, the way this was handled.

Q I would still like to know, if you would deal with this question, whether you were preparing to fire him had he not resigned, or whether you could deal with the general question.

MR. GERGEN: It did not come up in that context. That question did not arise.

Q If the President is saddened by what has happened, has he not expressed any dissatisfaction or displeasure that this thing happened? Has he not voiced a few angry words that this whole thing happened, either to Mr. Casey or to the senior staff?

MR. GERGEN: Not to my knowledge.

Q Dave, one of the functions of the CIA is investigation and surveillance and without regard to Mr. Hugel's actual -- whether the allegations are founded or not -- it seems to reflect on the administration that it didn't know in advance that it was susceptible to this. How does the administration feel about this apparent lapse in CIA investigation of its own?

MR. GERGEN: We don't share your premise.

There was a thorough investigation by the CIA, we are told. We do not know precisely every step of that investigation, but there are, after all, lots and lots of people who serve in this government who serve honorably and there continues to be no hard, proven evidence that this man has engaged in wrong-doing. We have allegations at this point.

Q What is the President's view of the performance of Bill Casey in this matter or generally?

MR. GERGEN: The President has felt for a long time, of course -- the President has had great faith and trust in Mr. Casey's capabilities for a long time, extending back beyond the time he came into this administration. He believes he's done a first-rate job at the CIA.

Q He still does?

MR. GERGEN: Of course.

Q Dave, in saying that the CIA conducted a thorough investigation --

MR. GERGEN: We are told. We cannot verify everything they have done, obviously.

Q Are you suggesting that the Agency did indeed find out these things and reported them to Mr. Casey and hired Mr. Hugel and put him in a sensitive position after knowing that?

MR. GERGEN: Am I suggesting that they knew of this?

Q Yes.

MR. GERGEN: No. I know of no reason to believe that they knew of this. Nothing that I have heard or --

Q What you have said indicates that they did not know of this.

MR. GERGEN: That's correct. But I would not want to swear on that because I have not looked at the investigatory materials. But I assume that they did not.

Q Dave, do you wish that the administration or Mr. Casey had known of these allegations earlier, before he was appointed?

MR. GERGEN: I suppose in some ways we all wish the whole thing could have come up in a way which could have been dealt with in a way which provided him what he wanted, which was a chance to have the allegation -- well, I wouldn't say that. Let's not wander down that path because I think that --

Q Go ahead.

Q Do you wish you had known about the allegations before he was appointed?

MR. GERGEN: I really don't have a comment about that. Obviously, if our people are going to come forward with information, whatever their motivation, you always want them to come forward before rather than after an appointment occurs. I don't think there's any doubt about that. That's obvious. But beyond that, I really don't think it's -- whether it happened last week or whatever --

The important thing is the way, in our view, the way it was handled once the issue surfaced. I think that it was handled expeditiously and by Mr. Hugel with a great deal of sensitivity, yes.

Q Sure, you would want to know these facts before he was appointed, but in fact, after the appointment he neglected to inform Casey of these so-called "blackmail threats" against him. Doesn't that show an omission on his part?

MR. GERGEN: I'm not sure the record that I have read reveals that. The record, as I understand it, there were rumors passing around of at least one newspaper and perhaps more -- were looking into this matter. At that time, as soon as that rumor surfaced here, Mr. Casey was immediately called. I can't speak. I don't know when Mr. Hugel learned of the rumors. I can't tell you whether he knew of them prior to that Wednesday or not. I simply don't know that. I have never spoken to the man in this context.

Q How did the matter first come to Mr. Fielding's attention?

MR. GERGEN: I don't know. It was through a third party.

Q A newspaper?

MR. GERGEN: It was not from the press but was from a third party, yes, sir.

Q Is it your contention that because of the date on which the alleged allegation occurred, this gentleman is protected by the Statute of Limitations as of today?

MR. GERGEN: It is my understanding that with regard to these kind of allegations that there are, generally there is a five year Statute of Limitations which presumably would have run. It may be -- this is a legal matter and I don't think it's wise to sort of shoot from the hip on this -- it may be there are matters involved here to which the Statute does not apply. But in general you're correct, there is a five-year Statute of Limitations in general which applies to this kind of activity. If the allegations are in fact true or if there were serious evidence which would support the allegations, and to stress again, we are simply dealing now with a newspaper story.

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ON PAGE 19

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13 July 1981

PERISCOPE

The CIA's 'Inverse PR' Man

CIA director William J. Casey, who abolished the agency's Office of Public Affairs last week, has taken another step toward lowering the CIA's profile. He has appointed an assistant whose domain will include press relations, but not under any ordinary definition of the term. The appointee is J. William Doswell, a lobbyist and former newspaperman. He describes his future dealings with the press as "inverse public relations."

ARTICLE APPEARED
ON PAGE A1

THE WASHINGTON POST
12 July 1981

Reagan Ends Daily Briefings With National Security

By Martin Schram
Washington Post Staff Writer

President Reagan has decided to end the long-standing presidential practice of receiving formal daily briefings from his national security affairs adviser — further deemphasizing the role of Richard V. Allen, who now holds that job — and to put a new emphasis on a committee of policy-makers.

As part of a continuing effort to bring order to his often-fractious foreign policy high command, the president is receiving his daily national security report from Allen in written form only, according to senior White House sources. The sources also said that the president has decided to set aside time three mornings a week for meetings with his entire top echelon of national security policy: Vice President Bush, Secretary of State Alexander M. Haig Jr., Secretary of Defense Caspar W. Weinberger and Central Intelligence Agency Director William J. Casey, plus Allen and top White House aides Edwin Meese III, James A. Baker III and Michael K. Deaver.

Top presidential advisers said that the president hoped his new format would serve to emphasize the collegial nature and team-player requisites of his Cabinet government.

The moves come amid reverberations from the most recent round of personal infighting and private consternation within Reagan's national security inner circle. The latest problem began with criticism from two of Haig's deputies of the performance of U.S. Ambassador to the United Nations Jeane Kirkpatrick — which renewed the concerns of the president and his senior White House officials about Haig's willingness to perform as a player on the Reagan team.

The problem continued through published reports that Allen, in discussions with reporters, was sharply critical of Haig. The reports prompted considerable unhappiness with Allen on the part of Haig, his associates and

Senior presidential aides said the decision on the new policy, put into effect last week, was made by the president after consultation with his top staff advisers, notably Meese, Baker and Deaver.

"A decision has been made to streamline the president's schedule," one of Reagan's senior advisers said. "It is not intended to reflect on Dick Allen or Al Haig or anyone else."

In practice, however, the change does reflect on Allen because every national security affairs adviser has given daily briefings to the president since the job was formalized in the Kennedy White House with the appointment of McGeorge Bundy. And it reflects upon Haig in that the formalized inclusion on the president's schedule three days a week of the eight-person committee known as the National Security Planning Group amounts to the regular participation of two officials — the defense secretary and the CIA director — who had not previously been part of the president's routine morning policy discussions.

This means that the president will be meeting regularly with virtually his entire national security council. While the entire group will be included on the president's schedule every Monday, Wednesday and Friday, it will not actually meet quite that often, according to one senior White House aide. The meetings will be convened any time any of the members feels there is a matter that ought to be discussed, he said.

"We expect that the group will meet at least a couple of times each week.... The reason for the change is that issues have often surfaced in the morning briefings that affected not only State, but Defense, the CIA and others — and they weren't there. Now they will be. It's an extension of cabinet government, really."

Before last week, the president had been receiving oral national security briefings from Allen each morning, along with a written daily intelligence report sent over by the CIA. Those morning briefings were attended by

cording to a presidential aide.

"I think every president feels that it clarifies a briefer's mind to first put [his thoughts] down on paper," this presidential adviser said. "... Each morning, if Dick Allen wants to see the president, he will be able to do so. Also, every time Al Haig wants to see the president, he will be able to see him."

Allen, who assumed office in January with the understanding that his job would not be as commanding in scope as it was in the era of two of his more famous predecessors, Henry Kissinger and Zbigniew Brzezinski, was asked in a telephone interview if he considered the new format a reduction of his duties. "Not at all," he said. "I suppose it could seem that way. But not at all. We are trying to make better use of the president's time. I'm altogether enthusiastic about the new schedule."

Now, he said, the president will read his national security briefing, and then Allen will appear in the Oval Office for the first five minutes of the regularly scheduled morning meeting that the president has with Meese, Baker and Deaver — "just to see if there is anything that needs to be clarified."

The private conflicts and all-too-public turf fights that have marred the first 5½ months of the Reagan presidency were triggered by — and continued to revolve around — his secretary of state, Haig.

In a memo to the president delivered on Inauguration Day, Haig sought to structure administration machinery to put him in control of all national security policy-making. One senior State Department official later

ARTICLE APPEARED
ON PAGE C-1

WASHINGTON STAR
12 JULY 1981

THE EAR

SCOOPS DU JOUR . . .



Even the Heavies of the Hamptons were stirred by the sweet sight: There stood Bill Simon, big-time moneybags and one-time

TreasurySec, tete-a-tete with Bill Casey, CIAmeister, at the superswank Maidstone Club in East Hampton. The duo were barefoot on the beach. Each was happily lapping an ice-cream cone. "You can't beat the Simple Things," breathed one Wordly One, hurling his margarita into the waves. How terribly true: Well, you can mix them up with the Complicated Things, and have it all. But it doesn't always work out. Read on.

POOPS DU JOUR . . . Ear

apologizes for the lateness of this item. But here's local morsel on poor dead Guy Burgess, tres gai British. Superspy of yore. Elderly Earwigs will recall that Guy was sent home to London as "unsuitable" after a spin in Washington. (Next thing you knew, he'd tiptoed off to Moscow and left a dreadful mess behind. That was back in '51.) While toiling away at the British Embassy here and being a closet KGBer, though, he'd hurled himself into the Washington Social Swim. One snippet that's just popped up in the FBI files: Guy applied for membership in the Utterly Upper-Crust Metropolitan Club here. The long Checking-Out made him antsy. He withdrew his name. Finally, he flounced over to the funky old National Press Club to join up there. By the time they got round to shouting "Okay!" he'd bolted. "He might have been a Different Person, at the Metropolitan," sighs one member. "Everyone else is." Ear has been thinking about this for some time, and still can't figure it out.

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ON PAGE C-9.

NEW YORK DAILY NEWS
11 July 1981



I, CLAUDIA

BY CLAUDIA COHEN

RS

There was CIA chief William Casey, in his best golfing duds, sitting on the beach of the snooty Maidstone Club in Easthampton (presumably watching for foreign submarines). Casey was with William Simon, also in golf clothes, both fresh from the Maidstone links. Simon, ex-Treasury boss, belongs to club.

10 July 1981

CRIME WITHOUT PUNISHMENT

That woman had boundless faith in the doctors and hoped that they would cure her. But instead of getting treatment she was secretly poisoned with narcotics.

Velma, wife of Canadian M.P. David Orlikow, came within the field of vision of the U.S. Central Intelligence Agency when the latter was stepping up its activities in Canada's legislature. In 1956-64 Velma was undergoing a course of treatment in the hospital of the Allan University in Montreal. This institute, which was headed by an American citizen, Douglas Cameron, was taking part in a top-secret programme for the development of means of influencing human behaviour. Injections of drugs reduced Velma to a state when she could not control her actions and divulged information of interest to the CIA about her husband and his acquaintances. The information about the political sentiments, intentions, habits and interests of Orlikow and

other M.P.s obtained from "Miriam" (Velma's code-name in the CIA's secret correspondence) was relayed to Washington.

Press exposés of the CIA's criminal experiments with drugs led Velma to suspect that she might have been one of the victims of these experiments. Later the Orlikow family lawyer gained possession of documents confirming this supposition.

This incident shows once again that from as far back as the 1950s the U.S. espionage centre has systematically used mind control techniques, both at home and abroad. Just as today, these techniques were used for the most diverse purposes—to obtain information about the plans of foreign democratic and pacifist organizations resisting the United States' aggressive policy, to compromise anti-war activists, to remove from the political arena personalities disliked by the United States by undermining their physical and mental health.

The application of mind control techniques to foreign citizens is one of the most glaring violations by the CIA of legal and moral standards in its activities outside the United States. It was not for nothing that the CIA general inspector warned, in a secret survey back in 1963, about the need for the strictest concealment of the use of such means as being unethical and illegal. Nevertheless, even the experimental work to develop such techniques was conducted by the CIA not only inside the United States, but also on

Cartoon by N. Shcherbakov



BOOK REVIEWS

EYEWITNESS ACCOUNT



Written hot on the heels of events, this book about present-day Spain, the first in the Soviet Union, is not simply a collection of feature stories and reports. It gives a broad panorama of life in Spain today.

The author also writes about the recent past which refuses to pass into oblivion. The decades of Francoism have struck deep root, as is evident from the attempted military putsch and the seizure of the Central Bank in Barcelona. But the facts cited in the book

convincingly show that the democratic forces have the power to continue the reforms and not to allow the neo-Francoists to impede or reverse this process.

The most notable political changes—the granting of autonomy to a number of regions, the participation of Communists in the parliament and the establishment of diplomatic relations with the Soviet Union and other socialist countries—have obviously become possible thanks to the new situation in Spain. These changes were preceded by long years of obscurantism and terror during which genuine patriots—the Communists and other democrats—fought tirelessly for a better future of their country.

Leonid Kamynin gives a detailed picture of present-day politics in Spain. The reader follows with interest his analysis of the lessons of the past and his reflections on the present and the

problems, some of which—the steadily rising unemployment and the terrorism, for instance—cannot be solved overnight.

Considerable space is devoted in the book to Spain's economic problems and the workers' struggle for their rights.

His journalistic grasp of the essence of developments, his ability to see the history and traditions behind the events have enabled the author to give a rounded picture of present-day Spanish reality. The character of the people, their thoughts about their future and the future of Spain do not escape his notice in the vortex of political life. Whatever Kamynin writes about—parliamentary debates or the referendum on the new Constitution, a folk festival in Valencia or economic co-operation between the Soviet Union and Spain—it is invariably the account of what is happening and he objectively assesses events and does not conceal his sympathies.

BROCKTON ENTERPRISE (MASS)
10 July 1981

A more effective CIA

THE Central Intelligence Agency has closed down its Office of Public Affairs — and about time, too.

The public affairs office was created in the 70s during the heyday of liberalism when the CIA was under constant attack by journalists and congressional investigators who revealed so-called abuses by the agency.

Credit for the dissolution of the 12-man public affairs office must go to CIA Director William Casey, who says bluntly that he is not going to waste time and money justifying every little move his agency makes.

Casey's predecessors at the CIA weren't allowed to run the agency as they saw fit because the liberals in Congress wielded too much power at the time. But things have changed now, and not just in Congress and in the White House. The mood of the country has changed, and the agents of the CIA are no longer perceived to be the bad guys.

It is significant that William Casey was an agent in the Office of Strategic Services during World War II. The OSS was the forerunner of the CIA, and Casey learned his craft there, and he learned it well. He learned, for example, that the smallest breach of security can have lethal consequences.

This simple concept, which would be obvious to a child, is apparently beyond the grasp of some dimwitted legislators and editorial writers who keep insisting that giving the CIA a guarantee of secrecy, or permission to act independently of Congress during a critical situation, leads to sinister abuses of power.

It was these foolish attitudes that deprived the CIA of some of its effectiveness during the 1970s and so endangered the national security. With President Reagan in the White House and with Conservatives pulling more weight in Congress, the CIA should once again be able to function efficiently.

Ex-Rand Corp. Chief To Head CIA Panel

The Reagan administration has selected Henry S. Rowen to head a newly created National Intelligence Council at the Central Intelligence Agency, administration officials said yesterday.

Rowen, a former president of the Rand Corp. who resigned in 1971, partly because of Pentagon dissatisfaction with Rand's security arrangements for the Pentagon papers, has until recently been a professor at Stanford University's Graduate School of Business. He has already begun working at the CIA, but his appointment has not been announced.

According to administration officials, William J. Casey, the director of central intelligence, chose Rowen for the post and decided to create the council to upgrade the system under which national intelligence estimates are produced.

New York Times Service

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NEW YORK TIMES
8 JULY 1981

Ex-Rand President Chosen To Head New C.I.A. Panel

By JUDITH MILLER
Special to The New York Times

WASHINGTON, July 7 — The Reagan Administration has selected Henry S. Rowen to head a newly created National Intelligence Council at the Central Intelligence Agency, Administration officials said today.

Mr. Rowen, a former president of the Rand Corporation who resigned in 1971, partly because of Pentagon dissatisfaction with Rand's security arrangements for the Pentagon papers, has until recently been a professor at Stanford University's Graduate School of Business. He has already begun working at the C.I.A., but his appointment has not been announced.

According to Administration officials, William J. Casey, the Director of Central Intelligence, chose Mr. Rowen for the post and decided to create the council to upgrade the system under which national intelligence estimates are produced.

Preparation of national intelligence estimates, which are supposed to be comprehensive studies of an issue or subject that reflect the views of the entire intelligence apparatus, has been a source of bitterness with intelligence officials for nearly eight years. Mr. Casey recently told C.I.A. officials in an agency newsletter that the system had become "slow, cumbersome and inconsistent with providing the policy maker with a timely, crisp forecast that incorporates clearly defined alternative views."

Critics of the process have also charged that the estimates have predominantly reflected C.I.A. views, with important dissents from other intelligence agencies relegated to footnotes. Stansfield Turner, Director of Central

Intelligence in the Carter Administration, was accused by some intelligence officials of distorting estimates to make them dovetail with the Carter Administration's foreign policy, an allegation that Mr. Turner denied, although he acknowledged that he had personally rewritten estimate papers.

Mr. Rowen himself has been a vocal critic of the intelligence estimates system, especially of what he has characterized as the C.I.A.'s optimistic assessments of Soviet military strength in the past. Mr. Rowen, an Oxford-trained economist, served as Deputy Assistant Secretary of Defense under Robert S. McNamara from 1961 to 1965, and became president of Rand in 1966.

Separate Views Encouraged

Under the new system, the council will be composed of those national intelligence officers charged with producing the estimates. They will report directly to Mr. Casey and to Bobby R. Inman, the C.I.A.'s Deputy Director.

Senate critics of the agency, such as Daniel Patrick Moynihan, Democrat of New York, and Malcolm Wallop, Republican of Wyoming, have urged Mr. Casey to encourage the intelligence agencies to offer separate views and estimates. Several officials who follow intelligence matters closely said that they doubted that the new council would lead to such a debate about the estimates.

"I fear that this means business as usual," one Administration official observed.



from the Director

Number 4

6 July 1981

NEWLY APPOINTED SENIOR OFFICERS

I recently announced several organizational changes and appointments affecting three of our Agency's senior positions.

I have asked Henry S. Rowen to become Chairman of the National Intelligence Council, which henceforth will report directly to the DCI and DDCI. Mr. Rowen will direct and coordinate the work of the NIOs. Mr. Rowen comes to the Agency with a diverse background both in the private sector and in government. From 1961 through 1964 he was Deputy Assistant Secretary of Defense for International Security Affairs, responsible principally for European policy issues. He then served through 1966 as Assistant Director of the Bureau of the Budget. From 1967 to 1972 Mr. Rowen was President of the Rand Corporation and from 1972 until the present has served as Professor of Public Management at the Graduate School of Business, Stanford University. During this period, he also has served as Director of the Stanford International Energy Program. Mr. Rowen has participated in and led a variety of private and public sector organizations concerned with energy and international security issues, including the Defense Science Board of the Department of Defense. He has just completed service as a member of the Secretary of Defense's review panel on the MX missile. He is a distinguished and prolific author on a

broad range of energy, defense strategy, nuclear nonproliferation and arms control issues.

A few weeks ago, I also announced the appointment of Stanley Sporkin as General Counsel. Mr. Sporkin came to CIA from the Securities and Exchange Commission where he served as the Director of the Division of Enforcement since 1974. He joined the Commission in 1971 as a staff attorney for the SEC's special study of the securities markets and held a variety of positions in the enforcement area before being named as the first Deputy Director of the new Division of Enforcement in 1972. Mr. Sporkin is the recipient of a number of prestigious awards for his government service, including the National Civil Service League's Special Achievement Award, the Rockefeller Award for Public Service from the Woodrow Wilson School of Public and International Affairs at Princeton University, and the President's Award for Distinguished Federal Civilian Service—the Civil Service's highest award.

Finally, I have appointed J. William Doswell as Chief of the External Affairs Staff of the Office of Policy and Planning. Mr. Doswell has served as a newspaper reporter, managing editor and publisher and for many years has headed his own public affairs consulting firm in Richmond, Virginia. He thus brings to the challenging position of overseeing CIA's legislative liaison and public affairs efforts extensive experience in both areas.

William J. Casey
Director

AMERICAN SURVEY

CIA

Down, profile, down

WASHINGTON, DC

"The difficulties of the past decade are behind us", said Mr William Casey, director of the Central Intelligence Agency, in a newsletter to employees last week, announcing that the agency's contacts with the press and the public would be further curtailed. "The time has come for CIA to return to its more traditional low public profile", he added, as he also cut back the staff assigned to keep congress informed of agency business.

That Mr Casey's unusual newsletter was leaked to the press is an indication that the CIA cannot yet retreat entirely behind a veil of secrecy. None the less, his message was a kind of confirmation that things have indeed changed at Langley. Through some unspoken process, the agency seems to have been given a green light to carry on its business unfettered. Indeed, the CIA's secret budget—already many billions of dollars—is being increased considerably by the Reagan administration, and there is talk that the agency is reviving and expanding its covert operations overseas (and possibly at home). Its clout at the White House could scarcely be greater, what with Mr Casey, who was Mr Reagan's campaign manager last year, in the directorship and Mr George Bush, himself a former CIA director, in the vice-presidency.

If the "difficulties of the past decade" were not behind the CIA, then it surely would have been the object of some ridicule last month, when it issued an annual report featuring statistics on international terrorism. "Statistics in this publication replace all statistics in our previous surveys", said a self-conscious footnote. That explanation was necessary because the new report claimed there had been 6,714 terrorist incidents between 1968 and 1980—more than twice as many

as last year's report had counted for the years between 1968 and 1979. Inasmuch as the agency was including only 760 incidents for 1980, the new, more fearsome figures could be produced only by a reclassification of previous data. The introduction of several new categories—including "threats", "hoaxes" and "conspiracies"—helped the agency to inflate and reinterpret the historical record.

Coming when it did, just as the secretary of state, Mr Alexander Haig, and other administration officials were pressing their view that communist-inspired terrorism is one of the major problems facing the world, the CIA report was convenient. Almost all the incidents it catalogued were blamed on communist and other left-wing groups. The explanation: "Most terrorist activity by right-wing groups will remain domestic in nature and thus will not be reflected in our statistics". To many observers, however, the new CIA numbers smacked of "policy-directed intelligence"—data intended to serve, rather than inform, the policy process.

That would be a departure for the CIA; for whatever other abuses it might have committed during the 1960s and early 1970s, the agency was always respected for its honest and forthright, if sometimes unwelcome, reporting on the military and political situation in Vietnam.

In more vulnerable times, the CIA would also have been stung by the unravelling story of Mr Frank Terpil and Mr Edwin Wilson, former agency operatives who arranged for big shipments of sophisticated arms—and training in their use—for the regimes of Colonel Muammar Qaddafi in Libya and General Idi Amin in Uganda. According to two articles in the New York Times magazine by Mr Seymour Hersh, an investigative journalist who exposed the CIA's domestic operations in 1973, Mr Terpil and Mr Wilson may have had help with their business ventures from former colleagues still well placed inside the CIA, and the agency at

first resisted co-operating with investigations of the men's activities by the justice department and by Admiral Stansfield Turner, President Carter's CIA director. Both men were indicted last year, but both are still at large.

Liberal critics of the CIA have criticised it for not pursuing and denouncing the likes of Mr Terpil and Mr Wilson as vigorously as it has Mr Philip Agee, Mr Frank Snepp, Mr John Stockwell and Mr Victor Marchetti, former CIA employees, who have turned against the agency and revealed in books, articles and speeches the identity of other intelligence personnel or the nature of the agency's operations overseas. On this contrast in reaction, however, the agency has remained silent.

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WASHINGTON STAR
3 JULY 1981

Va. Lobbyist Takes Position With CIA

RICHMOND (UPI) — J. William Doswell, one of the General Assembly's most effective lobbyists, will become the director of external operations of the Central Intelligence Agency, CIA officials said.

Doswell, 54, will take over the position later this month, William J. Casey, CIA director, said. The appointment is part of a major shakeup in the CIA's public and legislative affairs offices.

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CHRISTIAN SCIENCE MONITOR
3 July 1981

Inside Report

The atmosphere around US spy headquarters is getting chillier these days, at least for snoop reporters.

The CIA is closing its Office of Public Affairs and eliminating the background briefings that journalists have come to expect. Congress, too, is apt to see fewer CIA "spooks" from across the Potomac; agency director William Casey reported in a recent internal newsletter.

Casey feels the bad old days when the CIA came under journalistic and congressional fire for misconduct "are behind us."

"The time has come for CIA to return to its more traditional low public profile and a leaner — but no less effective — presence on Capitol Hill," Casey says.

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THE WASHINGTON STAR (GREEN LINE)
2 July 1981

Casey Nears Decision To Slash Publication Of CIA's Research

By Henry S. Bradsher
Washington Star Staff Writer

CIA Director William J. Casey is nearing a decision to curtail sharply the agency's publication of unclassified documents, but he will keep someone to answer the phone at the old public affairs office despite a new policy of curtailing outside contacts, according to CIA officials.

Publications policy has been under review at the agency since shortly after President Reagan named his campaign manager to run the intelligence organization. Casey has taken the position that his job is to keep the president informed — not the general public.

Officials say there have been several meetings to discuss whether to continue making CIA studies available to the public. These officials say the meetings are now close to producing a decision to cut back, or even halt, the practice of distributing the results of some CIA research — stripped of classified material — to other branches of the government, the press, universities and others.

Some officials raised the possibility that the State Department's bureau of intelligence and research might resume publishing limited kinds of research materials that it used to issue before the CIA became active in distributing documents. The bureau and the agency work closely together, and personnel often shift back and forth between them.

The CIA has made public two kinds of materials. One has been research aids that are simply handy compilations of openly available information, such as directories of government officials throughout the world. The other has been sanitized versions of the agency's research and analysis on subjects that are more obscure or that require secret sources, such as Soviet military expenditures or Chinese energy needs.

The agency also has one of world's best cartography units, which has issued outstanding atlases on specialized subjects, such as Soviet agriculture and polar regions. These and some of the other agency publications have been sold through government bookstores.

The publication of CIA materials expanded under Casey's predecessor as director, retired Adm. Stansfield Turner. The ruling to cut it back that officials expect Casey to make will probably reduce it to even less than was published before Turner, when the agency circulated some materials to universities but did not offer them widely in Washington.

Testimony by agency committees with public record some official conclusions, official notorious on Capitol Hill difficult about reviewing hearings before allow

A publications cut by Casey two month agency practice of briefings to journalists lowered by a decision to downgrade the office that arranged the briefings and distributed publications.

This office of public affairs became more active under Turner, who brought in a retired Navy captain to head it. As Turner's man, Herbert E. Hetu had been considered likely to be leaving the agency before long, but Hetu's own decision to depart has now been speeded up by cutting him off from direct access to the director.

A reorganization has dropped the public affairs office from being directly under the director to being three levels down. It will be a branch of a new external affairs staff, which also includes a downgraded legislative affairs office, that comes under a new office of policy and planning.

A veteran CIA man, Robert M. Gates, who was on loan to the Carter White House to work as an executive assistant to National Security Adviser Zbigniew Brzezinski, will head policy and planning. Gates was also briefly an executive assistant to Turner when Turner was head of the agency's Soviet analysis division.

The public affairs staff will be cut roughly in half, officials said, but the same information officers will still be there to take questions. There will be, however, fewer and slower answers than ever from an organization that has always been cautious about passing out information.

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NEW YORK TIMES
1 JULY 1981

Intelligence Agency Will Abolish Office Providing Press Data

WASHINGTON, June 30 (UPI) — The Central Intelligence Agency will abolish its Office of Public Affairs effective tomorrow, an agency spokesman said today.

Herbert E. Hetu, a former Navy captain who has been in charge of the office since 1977, said the public affairs section would be abolished and similar but reduced functions would be shifted to a new department that is to also handle the intelligence agency's communications with Congress.

Agency sources said Mr. Hetu disagreed with the decision and would leave the agency. There was no word on what would happen to his two principal assistants, Dale Peterson and Kathy Pherson.

The agency's public affairs office had a staff of about 12 and distributed a wealth of unclassified material on subjects ranging from Soviet oil and grain production to full lists and background of the leadership of the Soviet Union, China and other Communist nations.

Contacts With Media Diminished

William J. Casey, the Director of Central Intelligence, has been cutting down on the agency's contacts with the media since he became head of the agency in February.

Last month the agency ended a long-standing policy of holding briefings for reporters, saying that they were an imposition on the briefing analysts. The background briefings were useful for correspondents being sent abroad, particularly to such areas as the Soviet Union, China, and Eastern Europe.

Referring to investigations by Congress and newspaper exposés of the early 1970's on C.I.A. conduct, Mr. Casey said in an internal memorandum "the difficulties of the past decade are behind us" and the agency no longer had to justify its activities.

The new section that is to absorb the public affairs and legislative liaison offices will be headed by Robert M. Gates, executive staff director to the intelligence agency, who will report directly to Mr. Casey.